

Legislative Fiscal Bureau

Fiscal Note

HF 2592 - Start-Up Company Initiative (LSB 5447 HV)

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Fiscal Note Version - New

Description

House File 2592 allows qualified start-up businesses to submit a request for tax deferment to the Department of Revenue and Finance. If the request is approved, a taxpayer may defer taxable income for up to three years. Any tax due during the deferment period would then be paid in equal installments over the next five tax years. The Department is required to approve a deferment if all of the following are true for the requesting business:

- The business is a wholly new start-up entity.
- The business is domiciled in Iowa.
- The business is at least 25.0% funded by venture capital.
- The taxpayer does not owe delinquent taxes.

The Bill is retroactive to tax years beginning on or after January 1, 2002.

Assumptions

1. The taxable income deferral applies only to corporate income tax.
2. Qualified businesses will apply to the Department of Revenue and Finance, beginning in calendar year 2002.
3. The fiscal impact of the Bill is dependant on the following for which sufficient information is not available to base an estimate:
 - The number of start-up businesses meeting the requirements of the Bill.
 - The profitability and tax liability in the first three years of the qualified companies.
 - The number of qualified companies that will incur deferred tax liability in the first three years, but go out of business before paying some or all of the five deferred installments.
 - The effectiveness of Department of Revenue and Finance delinquent tax recovery efforts.

Fiscal Impact

House File 2592 will have a negative fiscal impact beginning in FY 2003. The fiscal impact would be the amount of taxes deferred that would have been paid under current law. The Bill would also have negative impacts in FY 2004 and FY 2005. The Bill could have a positive impact in fiscal years after FY 2005 if deferred tax payments exceed the new deferrals in a year. The projected negative General Fund impact is \$45,000 in FY 2003 and \$100,000 in FY 2004.

Sources

Legislative Fiscal Bureau Analysis
Department of Revenue and Finance

/s/ Dennis C Prouty

March 26, 2002

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
